2016 European Semester: macroeconomic and fiscal guidance to Member States

–ECOFIN Council conclusions on the Annual Growth Survey –

The Council (ECOFIN):

I THE 2016 EUROPEAN SEMESTER

1. WELCOMES the Commission's Annual Growth Survey 2016, which sets out broad policy priorities for jobs and growth in the EU and its Member States, and marks the starting point of the 2016 European semester.
2. BROADLY SHARES the Commission's analysis of the economic situation and policy challenges in the EU. Despite a moderate recovery which is expected to accelerate gradually, many economies face far-reaching structural policy challenges. Growth and employment are constrained by persistent macroeconomic imbalances. A number of economies have high long-term and youth unemployment, and slow productivity growth is affecting competitiveness and living standards. High private and public debt levels, together with the weak growth outlook, are holding back investment.
3. Within this context, STRESSES that policy should be directed towards consolidating the recovery and tackling macroeconomic imbalances. The recovery partly reflects the growing impact reforms implemented in the last few years are having and Member States should continue implementing ambitious reforms and responsible fiscal policies. UNDERLINES the importance of monitoring performance and policy implementation, including the country specific recommendations and those for the euro area, throughout the year. INVITES the Economic and Financial Committee and the Economic Policy Committee to do so, based on input provided by the Commission and Member States, and LOOKS FORWARD to discuss the implementation of country specific recommendations in the relevant Council formations in the upcoming months.
4. AGREES on the broad policy priority areas outlined by the Commission on which national and EU level efforts should concentrate in 2016: Re-launching investment, pursuing structural reforms to modernise our economies, and responsible public finances. RECOGNISES the stronger focus on employment and social performance.
5. The recovery, although expected to gradually accelerate, is strongly benefiting from temporary positive factors including low oil prices, a weaker euro and very accommodative monetary policies. At the same time, security concerns and geopolitical tensions have intensified and the global economic outlook is becoming more challenging so that downside risks to the economic outlook in the Union have worsened. Within this context STRESSES that, in full respect of the role of all relevant

actors, economic policies need to further contribute towards delivering stronger and sustainable growth.

6. WELCOMES the Commission's proposals to revamp the European Semester, set out in its Economic Governance package of October 2015.

II FISCAL AND MACROECONOMIC POLICY ORIENTATIONS

Re-launching investment

7. ACKNOWLEDGES that in part as a result of the crisis, the level of investment has fallen substantially. Despite overall favourable conditions of low interest rates, ample liquidity in financial markets and progress in the deleveraging process, investment levels remain low. STRESSES the urgent need to boost investment by improving the overall investment climate to support the economic recovery, and to increase productivity and growth potential.

8. WELCOMES the cooperation between the European Parliament, the Council and the European Investment Bank to render operational the Investment Plan for Europe in less than one year. WELCOMES the progress made on mobilising private and public investment and RECOGNISES the importance of the selection of strategic projects with high additionality under the European Fund for Strategic Investments (EFSI) to mobilise additional private sector resources. CALLS for an enhanced national awareness about the EFSI, and the development of private and public investment projects.

9. STRESSES the need to improve the regulatory environment at both national and European level to lift the regulatory, administrative and other obstacles to private investment and to exploit the benefits of regulatory predictability, the improvement and diversification of sources of finances and the reinforcement of the level playing field in the EU. UNDERLINES that attention should be paid to developing adequate administrative capacity, as well as increasing transparency, efficiency, and accountability in public procurement.

10. SHARES the Commission analysis on the need to improve the financing conditions for the real economy and ACKNOWLEDGES the importance of rapidly advancing the work on Banking Union to ensure financial stability. WELCOMES the Action Plan presented by the Commission to build a Capital Markets Union and calls for all relevant actors to ensure its rapid implementation.

III PURSUING STRUCTURAL REFORMS TO MODERNISE OUR ECONOMIES

11. WELCOMES Member States' progress in modernising their economies and addressing macroeconomic imbalances identified in previous years. HIGHLIGHTS that the performance of Members States varies significantly in some areas crucial for productivity

and convergence and LOOKS FORWARD to the Commission's initiative to explore the use of benchmarks and exchange of best practices across policy areas in order to encourage convergence towards best performers and more resilient economic structures to achieve stronger and sustainable productivity, employment and output growth. EMPHASISES that thorough discussion on the appropriateness of benchmarks will be vital for their effective use in the economic governance framework, and UNDERLINES the need to ensure and safeguard national ownership for structural reforms as a key factor to effective implementation, also on areas that are national competence.

12. ACKNOWLEDGES the role that EU funding and technical assistance can play in supporting reform implementation. TAKES NOTE of the Commission's intention to enhance the use of European Structural and Investment Funds in this regard.

13. HIGHLIGHTS the need to focus on a number of key reforms in the labour market, respecting the role of social partners, to help tackle youth and long-term unemployment; faciliating the adjustment of real wages to appropriately reflect movements in productivity over the medium term; modernising employment protection legislation and promoting smooth labour market transitions; strengthening human capital formation; and improving the effectiveness of social protection systems. ACKNOWLEDGES that a comprehensive approach is required to integrate migrants and the recent influx of refugees and facilitate their access to the labour market.

14. EMPHASISES that efforts should be stepped up to promote open and competitive product and services markets, and also improve the functioning of the European single market. RECOGNISES the potential of new technologies and business models as additional sources of growth that can lead to significant job creation.

III. RESPONSIBLE FISCAL POLICIES

15. WELCOMES the progress with fiscal consolidation, but ACKNOWLEDGES that public debt levels in most Member States remain high and there is still a need to secure long-term control over deficit and debt levels. EMPHASISES that Member States should continue to implement their fiscal policies in line with the Stability and Growth Pact, which allows the automatic stabilizers to work around the agreed path of structural adjustment while making the best use of the flexibility in the existing rules of the SGP and ensuring the long term sustainability of public finances. The fiscal effort should be differentiated by individual Member States in full compliance with the requirements under the SGP, while considering stabilisation needs, as well as taking into account possible spillovers across the Member States, including for the euro area as a whole. NOTES that the Commission assesses the fiscal stance for the EA and the EU as a whole for 2015 and 2016 as broadly neutral and appropriate, balancing short term stabilization and long term sustainability. WELCOMES that the Commission will take into account the budgetary impact of the additional expenditure related to the

extraordinary refugee crisis in line with the Stability and Growth Pact. STRESSES that fiscal policies should be anchored in effective national governance frameworks to enhance confidence, restore necessary fiscal buffers and avoid pro-cyclical fiscal policies. UNDERLINES the need to maintain credibility and effectiveness in ensuring fiscal responsibility. EMPHASISES that windfalls from the low interest rate environment should primarily be used to reduce debt ratios or to compensate for the effect of persisting exceptionally low inflation on the debt ratio, especially in those MS with high government debt, but also possibly for investments or structural reforms, depending on the country's fiscal position.

16. STRESSES that more attention should be paid to the quality and composition of fiscal adjustment and the influence of fiscal policy on growth, by improving expenditure efficiency and prioritising productive investment, including in human capital, in government spending, shifting towards a taxation system that is more efficient and supportive of growth, and to the need to address tax fraud and tax evasion and reduce aggressive tax planning. WELCOMES the Action Plan presented by the Commission in June 2015 aimed at re-establishing the link between taxation and the location of economic activity and value creation.

17. ACKNOWLEDGES the demographic challenge and the need to respond through prudent budget planning and responsible policies that ensure the sustainability of pension, healthcare and long-term care systems. HIGHLIGHTS the role of the social partners or other key stakeholders in line with national practice to ensure national ownership of the reforms and EMPHASISES that social protection systems should be fiscally sustainable.